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Planning Under Way For Bush-Kaifu Meeting

The ruling Liberal Democratic Party's startling defeat in the July 23 House of Councillors elections and the concurrent surge in popularity of the Japan Socialist Party have raised questions in the United States about the potential impact of these developments on Tokyo's economic and defense policies toward the United States. The Japanese government apparently is seeking to lay these concerns to rest by arranging a September 1 meeting in Washington between Prime Minister Toshiki Kaifu and President Bush.

This is the second meeting between the top leaders of Japan and the United States in two months; in mid-July Mr. Bush had met Mr. Kaifu's predecessor, Sosuke Uno, at the Paris economic summit. Given the domestic political events that have transpired since the Uno-Bush meeting, Tokyo appears particularly anxious to reassure Washington that the U.S.-Japan relationship is still the cornerstone of Japan's foreign policy. In addition, the Japanese government apparently wants to demonstrate that Mr. Kaifu and Foreign Minister Taro Nakayama, who also will make the Washington trip, have a thorough understanding of

seem unconvinced by Mr. Hawke's assurance that his plan would not compromise the clout of their organization. Although Asean trade ministers have indicated they will come up with an official position on the various Pacific regional proposals at their upcoming September meeting, a more likely result will be an "open" position pending a review of ideas that will be presented in November.

Gretchen Green

Japan, U.S. Vary Approaches To Reduce CFCs

Under domestic and international pressure to freeze production of chlorofluorocarbons at 1986 levels, Japan and the United States have proposed almost predictable plans. In Japan the five major producers of CFCs, chemicals considered responsible for damaging stratospheric buffers, and the 35 major CFC users have formed an organization to work out how they initially will chop current levels by 30 percent. Tokyo also has restricted imports starting in July. American regulators are putting the burden on producers to cut their CFC output by about 20 percent this year, while legislation is working its way through Congress that would charge fees for the sale of CFCs in an attempt to prevent producers from capitalizing on higher prices pending the arrival of safe substitutes. Such a move also would decrease the cost incentive for buyers of CFCs, which so far remain cheaper than the available alternatives.

The move to shrink CFC production and use comes in the wake of reports that the chemicals are creating holes in the ozone layer of the earth's upper atmosphere. These holes allow more ultraviolet light to bombard the earth, reportedly causing an increased likelihood of skin cancers and complications for global warming. As a result of the international nature of the use of CFCs for refrigerants, foam packaging, aerosols and solvents used in semiconductor production, among other uses, 37 nations signed the 1987 Montreal Protocol agreeing to limit their production and consumption of CFCs to 1986 levels, starting in the July 1989-June 1990 period. Thereafter, the protocol called for cutting CFC levels in half by the year 1998. Given more recent data on the increasing problems of ozone depletion, many nations -- including Japan and the United States -- have said they will phase out all CFCs by 2000, pending safe substitutes.

Substitutes are the name of the game for many CFC producers and others hopping on the bandwagon. A variety of American and Japanese manufacturers are looking at alternatives to CFCs as well as new products that either recycle the chemicals or require fewer CFCs. But many of the alternatives are in a 20-year development and testing phase, according to a spokeswoman for E.I. duPont de Nemours & Co., which produces about half of America's CFCs and a quarter of the world's. Nevertheless, given the push to cut CFC use, many companies are collaborating in such groups as the Program for Alternative Fluorocarbon Toxicity and Testing, which lists among its members Daikin Industries, Ltd., a major Japanese maker of air conditioners, and two leading American producers, Allied-Signal, Inc. and duPont. The goal is to make CFC substitutes capable of meeting the safety requirements in each country represented in the program. (The other participants are from France, Britain and Italy.)

Recycling will be one of the ways that Japanese producers and users meet Tokyo's new restrictions. The 40-member industrial organization, chaired by the

head of Showa Denko K.K., Japan's fourth-largest chemical company, will work to determine the mix of cutbacks necessary to meet Japan's 30 percent reduction from current levels to 1986 CFC levels (see Table). In addition, the government has announced plans to regulate imports by the 14 companies that draw on overseas sources.

1986 Production and Import Levels of CFCs

(in tons)

Country	Production	Imports
Japan	132,200*	9,740
United States	360,000**	n.a.

*Earlier figures from the Environment Agency suggested Japan produced 170,000 tons in 1986. Companies hesitate to release actual figures, which they consider proprietary information; this may be a factor in the discrepancy.

**Figures from the Alliance for Responsible CFC Use

Both industry and government have suggested that technology will enable Japan to be a leader in cutting worldwide CFC levels. Since developing nations for the most part are not signatories to the Montreal Protocol, it remains to be seen whether the technology for CFC substitutes will follow companies as they move production abroad. For example, both Matsushita Electric Industrial Co., Ltd. (which has said it will ban CFC production and use by 1995) and Hitachi, Ltd. have set up air conditioner factories in Malaysia. One of the reasons the signatories to the protocol are pushing for a phaseout of CFC use by 2000 is because countries like Malaysia, which is among the world's largest exporters of semiconductors and is a large producer of air conditioners, are expected to be using more and more CFCs until substitutes become available and affordable.

The U.S. method of cutting CFC production has been through regulations drafted and enforced by the Environmental Protection Agency. Basically, the five American producers have been allotted the same proportion of the market that they had in 1986 and are expected to trade, buy or sell production permits to cut back to earlier levels and stay within that range, according to one EPA spokesman. Enforcement depends on a company's reporting of its production, imports and exports, with stringent penalties aimed at noncompliance.

In addition, Congress is eyeing several measures, including some that would impose fees on any windfall that producers gain by selling increasingly limited supplies of CFCs. Other measures Congress is considering possibly would squelch some of the proposed CFC alternatives since they, too, have chlorine elements that attack ozone; however, the elements are shorter-lived than regular CFCs.

Although the bandwagon is rolling for those worried about being labeled a CFC producer or user, some heels are starting to drag. The U.S. Navy, for

example, has said it will continue to use CFCs as refrigerants and cleaning agents and the related halon compounds used in firefighting. (Halons, themselves, are a touchy subject; they are considered by many to be more potent in depleting ozone than CFCs, but they are critical for their firefighting capacity.) Nevertheless, the market forces rallying behind CFC substitutes and related equipment (as well as the environmental pressures) may end up keeping more American and Japanese companies on the bandwagon than fighting a rearguard action to maintain old technologies.

Pat Murdo

Notes

Japan's China Policy - Japan has taken two steps toward more normal relations with China. On August 18 Tokyo lifted its advisory against traveling in China outside of the capital, Beijing, because the situation "has calmed down for the most part." Japanese travelers to China were told to continue to exercise caution, however, and to travel at their own risk. A similar warning regarding trips to Beijing itself will be relaxed when the "social and security situation" has been settled, according to a Foreign Ministry statement. The United States eased its China travel advisory August 9.

The Foreign Ministry also expects that official Japanese aid to China will resume in the near future. Since travel to areas outside Beijing now is permitted, MOF expects projects to be reactivated gradually. Projects in the Chinese capital will remain in suspension indefinitely, said a ministry spokesman. Neither a schedule of priorities nor a specific plan was given, however. It also is not clear whether bilateral talks on an Y830 billion ($5.9 billion at Y140=$1.00) aid package for FY 1990-FY 1995 will begin this fall as originally planned.

While the government tries to reduce Beijing's international isolation, Japanese banks remain cautious about resuming new lending activity in China. Some observers have predicted that the commercial banks will follow the lead of the World Bank and the Asian Development Bank, but others are less optimistic. Even if these two multilateral institutions begin considering new loans to China in the near future, the latter group argues, private banks will require much greater guarantees from China before accepting the heightened risks involved in commercial lending. This position was underscored by an August 20 Japanese press report that some Chinese partners apparently have stopped paying principal and interest on joint venture construction projects, many related to the tourist industry.

The Chinese partners gave several reasons for halting payments: work disruptions in the wake of the June student demonstrations, galloping inflation and the poor outlook for the tourist trade. (Many loans are to be repaid with profits from hotels and other tourism projects.) Although no exact figures were given, Nihon Keizai Shimbun said that many of the projects are in the multimillion-dollar range. Any defaults will test the enforceability of various penalty and repayment clauses of the joint venture agreements.

Although aware of the delicate political situation, Japanese banks are stressing that a firm position must be taken. They now are considering downgrading China's country risk assessment and lowering lending ceilings (currently in the $1 to $1.5 billion range). At the moment Japanese banks do not

NOTE

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